



# CALIFORNIA ARTS COUNCIL

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MURIEL JOHNSON, DIRECTOR

DATE: December 29, 2009

TO: Michael C. Genest, Director of Finance

FROM: Muriel P. Johnson, Director, California Arts Council

SUBJECT: Review of Systems of Internal Control

In accordance with the Financial Integrity and State Managers Accountability Act of 1983, Government Code Sections 13400 through 13407, I am submitting the enclosed report describing the review of our systems of internal control for the biennial period ended December 31, 2009.

As statutorily required, the California Arts Council (CAC) is in compliance with Government Code Section 12439 by actively working to fill vacant positions to address workload needs of the agency. The California Arts Council has established an interagency relationship with the California State Library, which provides Human Resource services to the CAC. The State Library works closely with CAC Executive Staff to ensure compliance.

Enclosure

Cc: Joint Legislative Audit Committee

Bureau of State Audits

State Library

**Review of the Systems of Internal Control  
In Accordance with the Financial Integrity and State Managers Accountability Act  
of 1983, Government Code Sections 13400 through 13407.**

**AGENCY NAME:** California Arts Council  
**ORGANIZATION CODE:** 8260

**INTRODUCTION:**

In accordance with the Financial Integrity and State Managers Accountability (FISMA) ACT of 1983, the California Arts Council submits this report on the review of our systems of internal control for the biennial period ended December 31, 2009.

Should you have any questions please contact Scott Heckes, Chief of Administration, at (916) 322-6376 or [sheckes@cac.ca.gov](mailto:sheckes@cac.ca.gov).

**BACKGROUND:**

Founded in 1976, the California Arts Council (CAC) is governed by an 11-member policy-setting council appointed by the Governor and the Legislative to advance the state through the arts and creativity. Council members and professional staff have experience and expertise in the arts, creative industries, education, community development, state and local government, and the nonprofit and for-profit sectors. The California Arts Council has 18.3 authorized positions, and given its small size does not have an internal auditing unit.

The California Arts Council encourages widespread public participation in and appreciation of the Arts and creative endeavors. The agency helps build strong arts organizations at the local and statewide level, directly supports arts programs for all citizens, assists with the professional development of arts leaders, supports arts education in schools in all areas of the state, and promotes awareness of the value of the Arts. The California Arts Council does this by administering a number of competitive grant programs and special initiatives, collecting and disseminating information, and assisting organizations and individuals.

**VACANT POSITIONS:**

The California Arts Council is a small agency and management is mindful of the requirements imposed by Government Code Section 12439 and the agency is fully compliant. Presently the agency has one vacancy at the Associate Arts Grants Administrator level. The position is under consideration for reclassification to address the expanded/evolving needs of the agency based on the Council's current strategic planning efforts. The CAC has established an interagency relationship with the California State Library for the provision of Human Resource services. Management is working closely with the State Library on strategies to best meet the staffing needs of the agency.

**RISK ASSESSMENT:**

**Overview**

The California Arts Council approached the review of its internal procedures and controls from the standpoint that over time, the discussion of internal control systems has expanded from its previously narrow focus on accounting controls. It is now a commonly accepted principle that *internal control systems now embrace the processes and activities an entity engages in to meet its mission and achieve the goals of effectively and efficiently using the organization's resources to accomplish its objectives, complying with applicable laws and regulations, as well as, providing accurate and reliable financial information. And it is well understood that these systems are interrelated and intertwined into an organization's infrastructure.*<sup>1</sup>

## **Process**

The review of the California Arts Council's system of internal controls was conducted under the supervision of the agency's Chief of Administration. Executive management participants included the agency's Director, Deputy Director, Chief of Programs, and Chief of Administration. Other individuals key to the review process included the following unit leads: Senior Accounting Officer, Associate Programmer Analyst (Specialist), and Contracts/Procurement Administrator.

Executive management concentrated on potential risks facing the agency, while unit leads reviewed the procedures and controls within their respective areas. Management considered *what, if anything, needs to be improved in the agency and what are the main issues facing the agency?* For their work, unit leads reviewed current procedures and controls guided by the methodology outlined in the publication *Guidance for Evaluation of Internal Control (2008 edition) as well as Attachment B* of the 2006 edition, as prepared by the Department of Finance Office of State Audits and Evaluations. (Note: *Attachment B* was referenced due to the inclusion of expanded guidelines for review procedures relating to accounting controls, specifically *cash receipts subcycle, receivable subcycle, purchasing subcycle, cash disbursements, revolving fund, personnel and payroll, contracts, fixed assets, and financial reporting.*

## **Barriers to Success**

Executive management met over several sessions, guided by the Chief of Administration, to review concerns and issues facing the agency in both the short and long terms. Based on those discussions, the team identified perceived risks and barriers. The following outlines key areas of concern.

## **EVALUATION OF RISKS AND CONTROLS:**

### **Issue #1**

#### **Lack of Human Resources/Personnel Staff In-House**

Pursuant to Executive Order S-09-08 (issued July 31, 2008) the Arts Council was required to separate a part-time retired annuitant who served as the agency's only personnel officer/staff. In order to comply with the order, management worked directly with Department of Personnel Administration (DPA) and the State Controller's Office to process the separation. Without a personnel officer and a hiring freeze in place, the agency had no means to process personnel transactions and could not perform needed administrative functions that could have resulted in labor relations problems. As a result,

management was forced to seek alternative solutions. Through an already established relationship between the agency's director (Muriel Johnson) and the then seated State Librarian (Susan Hildreth), the Arts Council established an Interagency Agreement with the California State Library through which human resource services would be provided to the Arts Council. The association continues to present day and is quite effective, though the expense is greater than when the agency utilized the services of a part time retired annuitant. However, staff has expressed some anxiety over not having a personnel officer in-house to offer guidance and counsel as issues and concerns arise; though it is understood that they can contact the State Library staff at any time. As a result of not having an in-house personnel staff presence, the Chief of Administration, who traditionally supervised the personnel officer, has taken on the role of the "go-to-person" for staff that have questions regarding personnel issues or those who are in need of personnel related forms. This has added to the workload of the Chief of Administration.

**Corrective Action:** No corrective action is needed at this time. However it is understood by management that contracting for personnel services puts the agency at risk should the State Library determine that it can no longer provide such services to the Arts Council.

## **Issue #2:**

### **Aging workforce/Succession planning**

The State of California has a tremendous challenge ahead with 50 percent of Managers and Supervisors, and 35 percent of Rank and File eligible to retire within the next five years.<sup>2</sup> At the Arts Council, the numbers are much greater. Presently 72 percent of the agency's Civil Service staff are of retirement age (55 years or more). This is a statistic that places the agency at great risk and one that demands immediate attention.

**Corrective Action:** The agency last tested to establish hiring eligibility lists for the Assistant and Associate Arts Grants Administrators classifications in 2000. The resulting lists have long since expired. Testing has not been pursued in recent years due to a lack of vacancies and available resources. However, based on the likelihood that several current employees will be retiring in the next few years, Executive staff has made testing a priority and will work with the State Library Personnel Department on the steps necessary to establish testing including working with the State Personnel Board (SPB) on the cost and timeline for conducting the exams.

A priority is to secure staffing at an entry level—the Assistant Arts Grants Administrator—to provide a foundation for the next generation of agency leadership. Testing will be advertised through the state's network of local arts agencies (city and/or county arts councils or commissions), art colleges, UC and CSU art programs, targeted print advertising, other state agencies, the Arts Council's Website and biweekly online newsletter, and through other appropriate means.

## **Issue #3:**

### **Key person dependency**

Like many small agencies, the Arts Council relies on single individuals for key functions. This occurs more so with administrative operations than with program functions, where staff tend to be more or less generalists. Organizationally, the following functions are subject to key person dependency: contracts/procurement, accounting, IT, budget development, and graphic design. Historically each of these areas, with the exception of graphic design, was administered by multiple individuals. Key person dependency became a serious issue for the Arts Council following the 2003-04 decline in the state's budget, which resulted in a 94% reduction to the agency's budget and the loss of more than 50 percent of its staff.

**Corrective Action:** While key person dependency continues to be an issue, where appropriate, the agency seeks opportunities for its staff to secure training in activities that cross lines of responsibility. For example, the agency's Accounting Officer (Specialist) has taken training offered through the Department of Finance to expand his procedural knowledge. Lessons learned not only added to the incumbent's skill set, but provided an increased understanding of State requirements thus contributing to a higher degree of work done in tandem with the Senior Accounting Officer (Supervisor). Other opportunities will be considered in the future. Similar cross-training activities are planned between the Chief of Administration and the Contract/Procurement Administrator, who has an interest in learning the State Budgeting process.

#### **Issue #4:**

##### **Management compensation commensurate with duties**

The Chief of Programs manages the agency's grantsmaking efforts and program initiatives, and the Chief of Administration oversees the administrative services division including accounting, contracts and procurement, IT, and personnel, and serves as the agency's budget officer. Historically these positions were classified as Staff Manager II (Managerial). With the decline of its budget in 2003-04 (see *Issue #3, Key person dependency*), the agency was forced to reclassify these positions to Staff Services Manager I (Supervisory) to reflect the scope of operations at that time. In the ensuing years, the agency's budget has grown by approximately 100 percent with program and administration functions increasing accordingly.

**Corrective Action:** Concerning the Chief of Programs and the Chief of Administration, the Executive office has expressed its desire to upgrade these positions commensurate with the incumbents' increased duties. Additionally, both the Chief of Programs and Chief of Administration, due to their tenure with the agency (twenty-four and twenty-three years respectively), are critical to the agency's succession planning and training of the agency's next generation of leadership. Planned for the first quarter of 2010, Executive leadership will initiate a dialogue with State Library and the Department of Personnel Administration regarding the upgrade of these two positions

#### **Issue #5:**

##### **Staff advancement**

Arts Council leadership has long been concerned with limited opportunities for staff advancement, and the potential for turnover due to unfulfilled expectations. However,

due largely to its unique placement in state government and its compelling mission, the agency has been fortunate to maintain a well-qualified and loyal staff—a majority of whom have been with the agency for more than twelve years, with many serving more than twenty years. With the likelihood of retirements of key personnel in the near future, a question surfaced, *would new hires be so inclined to commit that kind of time with limited opportunities for advancement?*

On the program side, staff typically enter the roles as Assistant Arts Grants Administrators (the equivalent of a Staff Services Analyst), with the opportunity to advance to the Associate Arts Grants Administrator level (the equivalent of an Associate Governmental Program Analyst) after having achieved a required level of experience. However opportunities for advancement typically end there; the next level for advancement is to the Chief of Programs. The arts council does have a “transition” classification between the associate level and the Chief of Programs—the Supervising Arts Grants Administrator—but the position is not currently in use due to a reduced number of program staff (a result of the 2003-04 reduction to the agency’s budget).

**Corrective Action:** As with many small agencies, opportunities for staff advancement are limited. However, to address this problem, Executive leadership is committed to reinstating classifications not currently in use as agency resources improve. For example, by reinstating use of the Supervising Arts Grants Administrator classification, an increased opportunity is created for those in the Associate Arts Grants Administrator classification. Additionally, by targeting staff recruitment efforts at the entry level (see *Issue #2, Aging workforce/Succession Planning*) additional opportunities for advancement will be created—Assistant Arts Grants Administrator, to Associate Arts Grants Administrator, to Supervising Arts Grants Administrator, and ultimately to Chief of Grant Programs. In lieu of advancement opportunities, Executive leadership is committed to providing resources for skill development and professional development to meet employee work expectations.

#### **Issue #6: Support staff**

With the reductions experienced in 2003-04 and discussed elsewhere in this report, the agency eliminated all support staff—Office Assistants (OA) and Office Technicians (OT)—in order to maintain as full a complement of program and administrative professionals as possible. In doing so, the agency turned to using part time student assistants to provide support services. While the agency had a history of employing students to assist with grant application processing and panel deliberations, such assistance was more or less cyclical. With the elimination of OA and OT positions, the agency turned to University Enterprises, Inc. (CSUS) to contract for part time student assistants to provide support services on a year round basis—assisting with both grantsmaking and administrative efforts. While remaining mindful of the needs of the agency, staff attempts to assign students to activities that match their areas of study thus providing for a rewarding experience. By doing so, students tend to remain with the agency for longer periods and as such training for “new” student assistants is minimized; however turnover is inevitable.

**Corrective Action:** Management recognizes that the use of student assistants as the singular means of support services for the agency is not the optimal solution, however based on available resources it remains current practice. As the agency's resources improve and programs expand, an accompanying level of staff expansion will be sought, including the reestablishment of a system of support that includes both Office Assistants and Office Technicians.

**Issue #7:**

**Separation of Duties**

The separation of duties is central to the integrity of internal control. Because of the agency's small size, the optimal level of separation is often difficult to achieve.

**Corrective Action:** Management is mindful of the importance of separation of duties and maintains adequate controls. For example, from an accounting perspective (because the unit is staffed by two individuals), cross training has been implemented so that duties can be more fully separated, and to help relieve reliance on the need for one employee to know the entire accounting cycle. (See *Issue #3, Key person dependency*.)

**Issue #8:**

**Communication/Email**

The Agency has experienced, over the last several months, intermittent interruptions in email service, both internal and external. In an effort to resolve the issue, a consultant was brought in from Network Design Associates, who has assisted the agency in the past. A number of minor issues were corrected, however problems persist.

The majority of issues seem to be related to the agency's email software configuration. In an effort to reconfigure service, the agency encountered major difficulties with AT&T, our DSL provider. After several weeks of trying to resolve the problem with AT&T, we abandoned the idea and restored the agency's email to its original configuration. Compounding the issue is a lack of in-house expertise to tackle the problem.

**Corrective Action:** The agency is in the process of implementing a hosted email system through Google. The process should be completed in the next two weeks. Working through Google will not only address the reliability issue, but contribute to the expertise required to effectively administer the agency's email system.

**Issue #9:**

**Furlough/Workload**

The Arts Council staff has been subject to furloughs since February 2009. Presently agency staff is furloughed three days per month. The furlough reduction equates to a monthly loss of 2.33 PYs for the CAC, which places increased stress on a small agency impacted by key person dependency (see discussion above). As a result, during furlough weeks individual staff must tackle a workload with 20% less time to do so.

Management is mindful of the impact furloughs have on staff, their morale and stress level. Not only must they address a workload that is not lessened by the furlough, but they must grapple with the impact of monthly compensation that is reduced by nearly 15%.

**Corrective Action:** Management works with supervisors and unit leads to prioritize staff assignments. Also, management encourages staff to use their requisite rest periods and to leave their work area during that time. Staff is also encouraged to use their lunch period as a time to get away from the office for a brief respite. Additionally, the Employee Assistance Program (EAP) has been promoted to staff as a source of aid for personal and work-related issues.

#### **Issue #10:**

##### **Workload Analysis/Desk Audit**

As part of the Council's current strategic planning efforts, which will set a direction for the agency for the next three-plus years, a need surfaced to assess staff workload to ensure that the agency's programmatic and support efforts could be accommodated by present and perhaps additional staff. Additionally, management is interested in assessing the day-to-day output of staff—working to ensure that the body of work accomplished is in alignment with individual duty statements.

**Corrective Action:** Management will consider an internal **workload analysis** using a process known as "Consensus Building"—which the agency has used effectively in the past. This process utilizes staff to identify the tasks performed by the unit and the amount of time required for each task. The amount of time required to perform each task is then multiplied by the number of "widgets" associated with it. This calculation provides the total amount of time required to complete each defined task. This process is repeated for every task that is performed.

Management will establish a methodology and process for conducting **desk audits**, including the use of a daily log detailing activities and outputs for specified periods.

#### **Other concerns identified through the review process**

In addition to the *risk assessment* discussed above, the following issues/procedures in need of correction surfaced during the review of the agency's internal controls:

#### **Issue #11**

##### **Onsite facilities are adequate for safeguarding cash and other valuables (SAM 8025)**

Staff has determined that the safe combination was not changed when a former employee—who had access—retired.

**Corrective Action:** Because the Arts Council is housed in a secure building that requires electronic access (The Department of Justice), former employees do not have



free access to the Council's office. However, as required by SAM 8024, management will ensure that the safe combination is changed.

#### **Issue #12**

#### **Verify that the SWACP recovery amounts are transferred to the General Fund within 30 days after the end of each quarter.**

Staff has found that SWCAP is transferred once a year and not on a quarterly basis as required by SAM 8755.2.

**Corrective Action:** Procedures will be established to ensure compliance.

#### **CONCLUSION:**

Commensurate with the requirements the Financial Integrity and State Managers Accountability Act of 1983, and Government Code Sections 13400 through 13407, the California Arts Council through an informal audit of its internal control structure determined that it has in place an effective system of accounting and administrative oversight that includes:

- An organization plan that provides segregation of duties appropriate to safeguard state assets;
- A plan that limits access to state agency assets to authorized personnel who require these assets in the performance of their assigned duties;
- A system of authorization and recordkeeping procedures adequate to provide effective accounting controls over assets, liabilities, revenues, and expenditures;
- An established system of practices to be followed in performance of duties and functions;
- Personnel of a quality commensurate with their responsibilities, and
- An effective internal review system.

#### Footnotes

1. *Guidance for the Evaluation of Internal Control (2008 Edition)*, State of California Department of Finance Office of State Audits and Evaluations, Page 4
2. Department of Personnel Administration. <http://www.dpa.ca.gov/personnel-policies/workforce-planning/demographics-and-labor-statistics>. (December 16, 2009).